the Freeman

Ideas on Liberty

DECEMBER 1976

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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LEONARD E. READ *President,* Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

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CARTELS: *Conspiracies in Restraint of Trade*

BRIAN SUMMERS

AFTER LOSING MONEY for 17 straight years, in 1976 California orange grower Jacques Giddens finally sent a bumper crop to market. He was immediately hauled into court, charged with shipping too many oranges.

Giddens had exceeded a marketing quota set by the Navel Orange Administration Committee and enforced by the federal government. When Giddens exceeded his quota—less than 66 per cent of his crop—he was breaking the law.

"Right now I've got 13 acres of unpicked oranges sitting out there," Giddens said, "but I won't get anything for them because they're beginning to freeze. I can't pick them because I've already filled my quota, and there's no way to store oranges except leave them on the trees. In three more weeks they'll be junk.

"The law is crazy. I'm growing perfectly good food in a hungry world and throwing it away so some fat cats in Los Angeles can make a housewife pay more for her oranges in the supermarket."[1]

Jacques Giddens has to throw away perfectly good oranges because the orange industry is controlled by a cartel of merchandisers who act as middlemen between the farmer and the supermarket. The cartel decides how many oranges will be shipped to the fresh fruit market, and the federal government enforces the cartel's quotas.

Cartels—conspiracies to limit

Mr. Summers is a member of the staff of the Foundation for Economic Education.

[1] "Orange Grower Hits Waste of Food in Quota System," *Los Angeles Times*, April 25, 1976.

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competition in order to charge monopoly prices—control large portions of the American economy. Before considering further examples, let us see how cartels are formed.

In a free market, it is extremely difficult to form an *effective* cartel—one that restricts competition to the point that the participants gain more from selling at monopoly prices than they would from selling more goods at competitive (lower) prices. The difficulties are:

1. Competition from substitute goods and services. A cartel that restricted the output of, say, aluminum would find its customers turning to steel, brass, plastics, and other substitutes. The losses of sales to these substitute products could more than offset the cartel's monopoly gains.

2. Agreeing on a monopoly price. Higher prices are more advantageous to high-cost, low-output firms than to low-cost, high-output firms. Deciding on a single monopoly price might not be easy.

3. Cheating. A cartel member who secretly lowers his price—say by kickbacks—can reap large gains through increased sales. In addition, a cartel member can try to undercut the other members by altering his product's quality or improving his credit, delivery, trial, or refund procedures.

4. Competitors who refuse to join the cartel. A producer who doesn't join can undersell the cartel, grow in size, and thus take more and more customers away from the cartel.

5. Potential competitors. The cartel's monopoly gains will attract new competitors who may refuse to join the cartel, and proceed to undersell its members.

These are some of the obstacles to forming an effective cartel in a free market—a market in which the government's powers are limited to protecting people from fraud and coercion. In a free market, a cartel has no legal means to force producers to join the cartel and to charge the cartel's monopoly price.

A cartel can impose its will on producers only when the government fails to protect producers from the cartel or, even worse, when the government itself enforces the cartel's edicts. The latter is the case in the United States today.

The dairy industry is an example of government-created cartels. When private attempts to cartelize the industry fell apart in the early 1930's, the government stepped in, as described by Michael McMenamin:

> Faced with the free market's reassertion of competition in the face of private attempts to cartelize the raw milk industry, the Federal government resorted to direct intervention, i.e., the

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policy of government coercion to direct a market in a manner different from that dictated by supply and demand. First under the Agricultural Adjustment Act of 1933, and subsequently under the Agriculture Marketing Agreement Act of 1937, the Federal government moved to "stabilize" prices in fluid milk markets throughout the country.... In practice, what the government created was the framework for establishing local and regional milk cartels.

McMenamin concludes that "government price fixing, combined with monopoly power, has raised the price of a gallon of milk some 20 cents higher than if competitive conditions prevailed."[2]

The peanut cartel is another example. Since 1940 the cultivation of peanuts has been restricted by the federal government to 1.6 million acres. To further restrict supplies—and thus drive up prices—peanuts are subject to strict import controls. To make the cartel airtight, the federal government guarantees a minimum support price. In 1975 this price was $394.50 a ton, about $150 a ton over the world price. This artificially high price encourages intensive cultivation of the allotted 1.6 million acres, resulting in a waste of resources (such as fertilizers) and a surplus of peanuts. In 1975 the government bought some 600,000 tons of peanuts—about a third the nation's crop—at the $394.50 support price. Every year the peanut cartel costs the American public hundreds of millions of dollars in terms of taxes, higher prices, and the misuse of land, labor, and capital.[3]

Jacques Giddens can't sell all his oranges because the orange cartel's quotas are converted into marketing orders by the U.S. Department of Agriculture and enforced by the Justice Department. There are, in fact, 109 Federal marketing orders in effect in 25 states for fruits, vegetables, nuts, and dairy products. In 1972, for example, growers left 14,000 tons of cherries to rot in orchards because of a Federal marketing order.

The trucking industry is also controlled by cartels. Brooks Jackson and Evans Witt describe how these cartels collude with the Interstate Commerce Commission:

> The ICC tells truckers precisely what kinds of goods they can carry, precisely what highways they can use and what they can charge.
>
> The ICC also limits competition by denying thousands of applications each year by truckers desiring to offer new services.
>
> The major trucking firms band together in "rate bureaus" that decide what to charge for hauling. These cartels, exempt from antitrust prosecution,

[2] Michael McMenamin, "Milk, Money and Monopoly," *Reason*, March 1976.

[3] *Wall Street Journal*, June 3, 1976.

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then challenge any attempts to have lower rates approved by the ICC.

This keeps shipping prices higher than they could be.

An Agriculture Department study found that shipping rates for frozen fruits and vegetables dropped 18 per cent when the courts ruled those products exempt from ICC oversight. Another Agriculture study showed rates for dressed poultry plummeted 33 per cent when ICC regulation was lifted.[4]

The waste wrought by ICC regulations is enormous:

For example, a Department of Transportation study discovered that a big manufacturer of building materials in New Jersey ships three truckloads of goods a week from its main plant to Tampa, Florida. The trucks make the return trip empty.

This company has a subsidiary in southern Florida that sends three truckloads of goods a week to eastern Pennsylvania. But the subsidiary's trucks make the return trip south empty—because the ICC will not let a subsidiary's trucks carry goods for the parent company or vice versa.

The DOT study, which did not name the firm, concluded that this one company could save 360,000 miles of useless travel and 90,000 gallons of fuel a year just by running trucks in a circuit from New Jersey to Tampa to southern Florida to eastern Pennsylvania.[5]

According to a report co-authored by Robert Fellmeth and members of the Ralph Nader research staff, regulated truckers travel empty an estimated 30 per cent of their miles—three times the percentage for unregulated truckers. Empty trucks, ICC-mandated roundabout routes, and artificially high rates cost the American public tens of millions of gallons of fuel and billions of dollars every year.[6]

The airline cartel is also costing the public immense sums of money. It is about the same distance from Chicago to Minneapolis as it is from Los Angeles to San Francisco, yet the air fare from Chicago to Minneapolis is almost twice as much. Why? The California route is intrastate and thus exempt from Civil Aeronautics Board regulation. The CAB, created in 1938, assigned all interstate routes to a cartel of 16 airlines. Six of the original carriers have since disappeared, but the CAB has assigned all their routes to the ten surviving members. Not a single new carrier has been permitted to operate on these routes.[7]

Jackson and Witt report:

The Civil Aeronautics Board refused to allow a British firm, Laker Airways, to fly regular New York-to-London flights for $270 round trip. Existing

[4] "Washington's Reach: Inflated Prices, Waste, Delay—Americans Paying for Regulation," *El Cajon Californian*, March 17, 1976.

[5] *Ibid.*

[6] Mark Frazier, "Highway Robbery—Via the ICC," *Reader's Digest*, January 1975.

[7] James Nathan Miller, "Government Airline Regulations—Needless Risk at High Rates," *Reader's Digest*, June 1975.

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airlines fly the same route for $626 for a roundtrip economy-class ticket.[8]

Government-created cartels control large segments of the American economy. And their influence will extend if the advocates of National Economic Planning have their way. Consider this statement from the Initiative Committee for National Economic Planning (*The Case for Planning*). The Planning Office "would indicate the number of cars, the number of generators, and the quantity of frozen foods we are likely to require in, say, five years, and it would try to induce the relevant industries to act accordingly."

Thus, under National Economic Planning, the government would "induce" the production of a given number of automobiles and other products. The only way to produce a given number of automobiles (no more, no less) is to assign quotas to the producers and exclude all potential producers from the market. That is, the only way to meet the goals of National Economic Planning is for the government to create even more cartels.

[8] "Regulators Have Stranglehold on Lives," *El Cajon Californian*, March 15, 1976.

The Chimera of Monopoly

IDEAS ON LIBERTY

WITH and because of the growth of capitalism, competition has in our day become intense and swift and sure beyond all previous human experience.

What do we mean by competition? We ought to mean the ready movement of the factors of production — labor or productive instruments — toward those employments in which prices are exceptionally high and profits large. That is, competition is substantially "mobility." Two things are necessary for this mobility: (a) knowledge, among persons outside of the high-priced employment, that it is profitable; (b) the possibility of increasing the use of capital and productive energy in employments whose superior attractiveness has become known. In both respects the tendency of recent industrial evolution has been toward making competition more prompt.

AMBROSE PARÉ WINSTON, from an article in *Atlantic Monthly*, November 1924.

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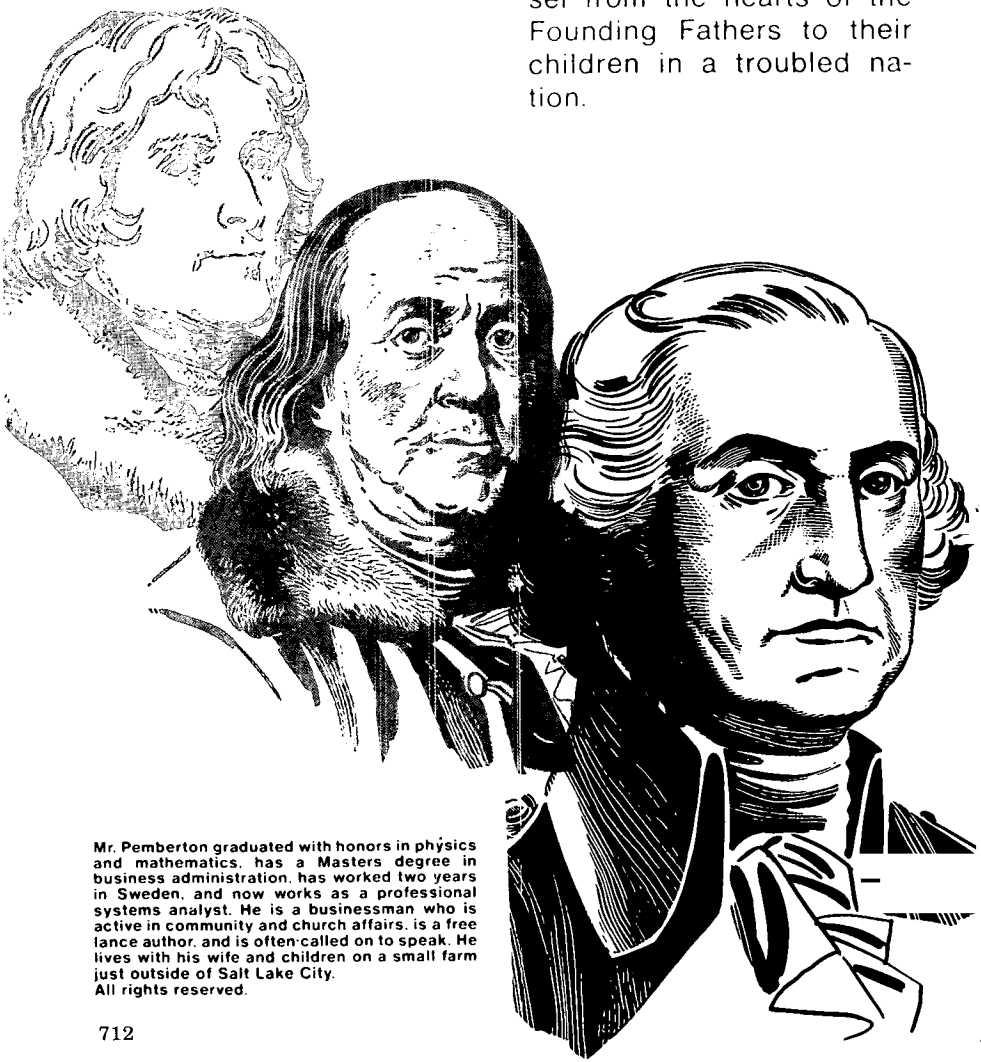
A NEW MESSAGE

JACKSON PEMBERTON

Words of courage and counsel from the hearts of the Founding Fathers to their children in a troubled nation.



Mr. Pemberton graduated with honors in physics and mathematics, has a Masters degree in business administration, has worked two years in Sweden, and now works as a professional systems analyst. He is a businessman who is active in community and church affairs, is a free lance author, and is often called on to speak. He lives with his wife and children on a small farm just outside of Salt Lake City.
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VIII. On the Destiny of Liberty

This concludes a series of articles in which the author draws upon the extensive collection of the thoughts of the Founding Fathers and lets them speak to us relative to the problems we face in the United States today.

THE CREATOR endowed man with the power to perceive and to understand his world, the ability and the will to act upon it, and the liberty to choose his actions. His discernment and freedom stretches from the center of his secret heart to the outermost stars of his celestial world, and his decisions determine his destiny.

Man is a mighty being, capable of unthinkable feats, and that wondrous capacity coupled as it is with freedom of his will, favors him with the most awesome potentialities. A man may, by learning and energy, make himself a god or a devil, to build or to destroy, to experience exquisite joys or perverted pleasures. The choice is left to each to decide from which cup he shall drink. To make the wise choice is to make him more powerful and more free, for that places him in harmony with the laws of all Nature and releases his capacity to create, which together provide an enduring happiness; but to make the choice elicited by the sirens of pleasure and pride is to bind him down with the chains of enslaving habit, an afflicted mind, and a weakened body. Thus he reaps the just reward of the use of his liberty.

Every man bears in his breast a spark struck from the soul of Almighty God, and in that spark glows the light of love and liberty. Every man yearns to be good and to be great, to be a blessing to all within the circle of his society; yet there are those who, intoxicated with the lust for power and wealth, turn from that divine inheritance for the corrupt pleasure of control over their fellows, and gain by their loss. Thus has the vanity of kings and despots devoured the lives of their poor subjects, and thus began

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the King of England to feed upon our toils and treasures. We repulsed his intrusions and gave you the Constitution to protect you from such, for we knew the history of man to be overflowing with the tyranny of bad governments.

In our day the tyrant came to us in open defiance of our rights, with hostility and violence, with sword and cannon. Through tears, prayer, and blood we threw him off and drove him out.

Now he is among you again, but not in open war upon your houses and lands, but in subtle disguise, bearing gifts of free money, free food, free houses, and free security; trading them to you in the name of equality, rights, and liberty: offering the goods he took from you by heavy taxes and a deliberate inflation. With flattering words he coddles your vanity, legalizes your selfishness, and leads you through a political mirage into his fool's paradise where he has appointed himself the Grand Regulator. Yet, your greatest danger lies in none of those things, but in your failure to recognize the pattern he follows, for it is ancient; what he cannot accomplish by force and violence he will attempt by lure and deceit.

You are now engaged in a mighty conflict; a contest between freedom and "free-loading," between liberty and license, and between government by the people and government by the government: a struggle testing whether you can stand tall enough amidst the turmoil to see above the trappings of your proud affluence and catch the vision of your own sons of liberty a hundred years hence, moving as free beings in a world where free men can labor and draw to themselves a portion of this world's blessings and work and live in the safety and liberty of their own self-discipline; or whether your appetite and passion for the transitory pleasures of your opulence will propel you on into the enslaving security of the oppressive government you are allowing to grow up around you as an angry bramble about the feet of the last free people on the planet.

But for all this, you must be careful to understand me, for I have not come to discourage you or to prepare the grave of liberty, but to warn and encourage you to be about the work which is to be done before all mankind may enjoy the fullness of the rights with which the Creator endowed them. For the perfection of human governments was conceived in this nation and has been carried in its womb these many years, and you now enter into the time of the last travail before it is brought forth to all the world; a time in which conspiring men seek to destroy it that they might own the glory and riches of the world for themselves.

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I have come to you in humility, and I speak from my heart. I have raised the cry of freedom and the alarm of oppression in your minds. Do not be troubled that I think your lot is destruction, or that you will not awake in time to save yourselves. Nay, not that, for I know you, and I know you will act in time. The cause of my great concern is my love for my children and the knowledge that the slower you act the more you will pay for your liberty: a lesson we learned in fear.

Contrary to your many doubts, it is not inevitable that you must go down. Was it inevitable that we should have won our struggle for freedom? Nay, 'twas the natural consequence of the pouring out of our purses and our blood, and the intervention of Divine Providence in the affairs of His children. You may act in the same faith, with the same courage, with the same determination, and with the same assurance of the same glorious result.

And I am consoled, for even now the nation is stirring, the desire for liberty wells up in the nation's bosom, and the cry of freedom whispers in its mind. Nay, I have no fear for your destiny, but I fear the price you may pay for it if you hesitate another decade.

I challenge you to set a noble cause: to set your face, your hand, and your heart to the restoration of the Constitution. If you harbor any doubt as to the correctness or worthiness of that aim, then search for a better goal until you are convinced. Study my words, for I have brought you the fundamentals of good government and laid them before you in earnestness and simplicity. Then set about to apply those principles; first in your own lives, then in your towns and cities, then your counties and states. Thus you will gain by experience the wisdom necessary to fully restore the most effective protector of human rights, and the most skilled artisan of noble human progress ever given to man for his general government.

More than any other institute of governments, the Constitution has guided the virtue of man, discouraged his baseness, and given full release to the productive capacity of his talents and energies. When you have restored those three functions to your government, you will have set the stage for the fulfullment of the manifest destiny of the nation. You will have displayed the proper example before the world, you will have gone back into an era of social and technical progress far beyond your fondest dreams, and thus you will be empowered by wealth and wisdom to instruct a jealous planet in the way of true progress.

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But you live in a day when selfishness is glorified, benevolence belittled, and the government enthroned as the patriarchal source of all blessings, the healer of all wounds, the savior of society, a singular entity to which one prays for his share of his neighbor's goods. And there are many who promote the deception, unwittingly moved by a lazy conscience and a selfish habit. And all are partakers in the delusion; all are tainted by the hypocrisy of public distribution of private production.

Those who seek to rule you promise to make you happy by capturing you in their private utopia; and while their desires may sometimes be honorable, their theory is dross; and while they know it unjust for one to thrust his will upon another or to revel in the fruits of another's toil, yet they refuse to confess the immorality of their politics. Yet, notwithstanding their false theories, they will succeed in your capture if you allow them to spoil you with promises of wealth without labor and security without honor.

You stand now as at the wye of time. Your mind feels the two alternatives before you; you may trade your respect and your freedom for a short-lived security and sell your children to the aristocracy, or you may work and strive for liberty with honor. In your heart you know the right, while the comforts of government welfare and the narcotic of a lazy morality woo you to carelessness in the choice.

How long my children will you halt between? For decades you have stood, hoping you might be spared the price of liberty, hoping all would be well with you while the ambitious and the vain have framed the laws to enforce your happiness. Now as their work nears completion, the urgency of their success strikes fear in your hearts while their soft promises urge you to sleep.

How long will you halt between? How high must the cost of freedom ascend ere you appreciate its worth and determine to pay its price? Can you not perceive that we once made the self-same error: Must each generation stumble in the same road? Must the cycles of history ever turn full round?

Nay my children! Not so! This time you may break the ancient pattern, for this is the first time and the last time the cycles in the nations have all been brought together in step and in time, for now the whole world lies in bondage, save a few. But the seeds of liberty germinate quickly under the tyrant's heel, and the embers of freedom glow brightest in the dark winds of oppression. Now those seeds grow and those embers glow, and the people of the earth peer out of darkness and look for *your light!*

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Now you, being free, may lead yourselves and them also into the full light of liberty.

Oh America! America! May the Almighty look upon you with the tenderness of a loving Father. May you look to Him with the faith of a chosen child. If you will reach for Him, He will touch you. If you will serve Him, He will lift you up. Can you hear my voice? This is the message I have come to deliver: I challenge you, each and every one of you to listen to the humility of your own heart, for it will guide you back to the glorious liberty which is your rightful inheritance if you will but qualify yourself by obedience to the voice of your own conscience. If you will listen and follow, the light of liberty will shine again in your face, and the nation will shine forth in a world darkened by the tyranny of despots and evil politicians. Rise up my people! Take your proper place in the progress of freedom!

If you will be faithful to your own hearts and the blood of your fathers, you may have the privileg of being the political saviors of the world, not by coercion or conspiracy but by example and precept. That is your challenge and your duty, your opportunity and your blessing. And that is the true destiny of liberty. I know it; and there is not one of you who does not in his own heart know it also. Then—my Sons of Liberty—be true to it! Farewell!

IDEAS ON LIBERTY

The Day's Demand

God give us men! A time like this demands
Strong minds, great hearts, true faith, and ready hands;
Men whom the lust of office does not kill;
Men whom the spoils of office cannot buy;
Men who possess opinions and a will;
Men who have honor; men who will not lie;
Men who can stand before a demagogue
And damn his treacherous flatteries without winking;
Tall men, sun-crowned, who live above the fog
In public duty and in private thinking;
For while the rabble, with their thumb-worn creeds,
Their large profession and their little deeds,
Mingle in selfish strife, lo! Freedom weeps,
Wrong rules the land, and waiting Justice sleeps.

JOSIAH G. HOLLAND

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Lessons of the German Inflation

HENRY HAZLITT

WE LEARN from extreme cases, in economic life as in medicine. A moderate inflation, that has been going on for only a short time, may seem like a great boon. It appears to increase incomes, and to stimulate trade and employment. Politicians find it profitable to advocate more of it—not under that name, of course, but under the name of "expansionary" or "full employment" policies. It is regarded as politically suicidal to suggest that it be brought to a halt. Politicians promise to "fight" inflation; but by that they almost never mean slashing government expenditures, balancing the budget, and halting the money-printing presses. They mean denouncing the big corporations and other sellers for raising their prices. They mean imposing price and rent controls.

When the inflation is sufficiently severe and prolonged, however, when it becomes what is called a hyperinflation, people begin at last to recognize it as the catastrophe it really is. There have been scores of hyperinflations in history—in ancient Rome under Diocletian, in the American colonies under the Continental Congress in 1781, in the French Revolution from 1790 to 1796, and after World War I in Austria, Hungary, Poland, and Russia, not to mention in three or four Latin American countries today.

But the most spectacular hyperinflation in history, and also the one for which we have the most adequate statistics, occurred in Germany in the years from 1919 to the

---

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics,"* *The Foundations of Morality*, and *What You should Know About Inflation*

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end of 1923. That episode repays the most careful study for the light it throws on what happens when an inflation is allowed to run its full course. Like every individual inflation, it had causes or features peculiar to itself—the Treaty of Versailles, with the very heavy reparation payments it laid upon Germany, the occupation of the Ruhr by Allied troops in early 1923, and other developments. But we can ignore these and concentrate on the features that the German hyperinflation shared with other hyperinflations.

Convertibility Suspended

At the outbreak of World War I—on July 31, 1914—the German Reichsbank took the first step by suspending the conversion of its notes into gold. Between July 24 and August 7 the bank increased its paper note issue by 2 billion marks. By November 15, 1923, the day the inflation was officially ended, it had issued the incredible sum of 92.8 quintillion (92,800,000,000,000,000,000) paper marks. A few days later (on November 20) a new currency, the rentenmark, was issued. The old marks were made convertible into it at a rate of a trillion to one.

It is instructive to follow in some detail how all this came about, and in what stages.

By October 1918, the last full month of World War I, the quantity of paper marks had been increased fourfold over what it was in the prewar year 1913, yet prices in Germany had increased only 139 per cent. Even by October 1919, when the paper money circulation had increased sevenfold over that of 1913, prices had not quite increased sixfold. But by January 1920 this relationship was reversed: money in circulation had increased 8.4 times and the wholesale price index 12.6 times. By November 1921 circulation had increased 18 times and wholesale prices 34 times. By November 1922 circulation had increased 127 times and wholesale prices 1,154 times, and by November 1923 circulation had increased 245 *billion* times and prices 1,380 *billion* times.

These figures discredit the crude or rigid quantity theory of money, according to which prices increase in proportion to the increase in the stock of money—whether the money consists of gold and convertible notes or merely of irredeemable paper.

And what happened in Germany is typical of what happens in every hyperinflation. In what we may call Stage One, prices do not increase nearly as much as the increase in the paper money circulation. This is because the man in the street is hardly aware that the money supply is being increased. He still has

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confidence in the money and in the pre-existing price level. He may even postpone some intended purchases because prices seem to him abnormally high, and he still hopes that they will soon fall back to their old levels.

Later Stages of Inflation

Then the inflation moves into what we may call Stage Two, when people become aware that the money stock has increased, and is still increasing. Prices then go up approximately as much as the quantity of money is increased. This is the result assumed by the rigid quantity theory of money. But Stage Two, in fact, may last only for a short time. People begin to assume that the government is going to keep increasing the issuance of paper money indefinitely, and even at an accelerating rate. They lose all trust in it. The result is Stage Three, when prices begin to increase far faster than the government increases, or even than it can increase, the stock of money.

(This result follows not because of any proportionate increase in the "velocity of circulation" of money, but simply because the value that people put upon the monetary unit falls faster than the issuance increases. See my article, "What Determines the Value of Money?" in *The Freeman* of September, 1976.)

But throughout the German inflation there was almost no predictable correspondence between the rate of issuance of new paper marks, the rise in internal prices, and the rise in the dollar-exchange rate. Suppose, for example, we assign an index number of 100 to currency circulation, internal prices, and the dollar rate in October 1918. By February 1920 circulation stood at 203.9, internal prices at 506.3, and the dollar rate at 1,503.2. One result was that prices of imported goods then reached an index number of 1,898.5.

But from February 1920 to May 1921 the relationship of these rates of change was reversed. On the basis of an index number of 100 for all of these quantities in February 1920, circulation in May 1921 had increased to 150.1, but internal prices had risen to only 104.6, and the dollar exchange rate had actually fallen to 62.8. The cost of imported goods had dropped to an index number of 37.5.

Between May 1921 and July 1922 the previous tendencies were once more resumed. On the basis of an index number of 100 for May 1921, the circulation in July 1922 was 248.6, internal prices were 734.6, and the dollar rate 792.2.

Again, between July 1922 and June 1923 these tendencies continued, though at enormously increased rates. With an index number of 100 for July 1922, circulation

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in June 1923 stood at 8,557, internal prices at 18,194, and the dollar rate at 22,301. The prices of imported goods had increased to 22,486.

The amazing divergence between these index numbers gives some idea of the disequilibrium and disorganization that the inflation caused in German economic life. There was a depression of real wages practically throughout the inflation, and a great diminution in the real prices of industrial shares.

How It Happened

How did the German hyperinflation get started? And why was it continued to this fantastic extent?

Its origin is hardly obscure. To pay for the tremendous expenditures called for by a total war, the German government, like others, found it both economically and politically far easier to print money than to raise adequate taxes. In the period from 1914 to October 1923, taxes covered only about 15 per cent of expenditures. In the last ten days of October 1923, ordinary taxes were covering less than 1 per cent of expenses.

What was the government's own rationalization for its policies? The thinking of the leaders had become incredibly corrupted. They inverted cause and effect. They even denied that there was any inflation. They blamed the depreciation of the mark on the adverse balance of payments. It was the rise of prices that had made it necessary to increase the money supply so that people would have enough money to pay for goods. One of their most respected monetary economists, Karl Helfferich, held to this rationalization to the end:

"The increase of the circulation has not preceded the rise of prices and the depreciation of the exchange, but it followed slowly and at great distance. The circulation increased from May 1921 to the end of January 1923 by 23 times; it is not possible that this increase had caused the rise in the prices of imported goods and of the dollar, which in that period increased by 344 times."[1]

Of course such reasoning was eagerly embraced by Germany's politicians. In the late stages of the inflation, when prices rose far faster than new money could even be printed, the continuation and even the acceleration of inflation seemed unavoidable. The violent rise of prices caused an intense demand for more money to pay the prices. The quantity of money was not sufficient for the volume of transactions. Panic seized manufacturers and business firms. They were not able to fulfill their contracts. The rise of prices kept racing ahead of the

[1] *Das Geld* (sixth edition, Leipzig, 1923.)

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volume of money. The thirty paper mills of the government, plus its well-equipped printing plants, plus a hundred private printing presses, could not turn out the money fast enough. The situation was desperate. On October 25, 1923 the Reichsbank issued a statement that during the day it had been able to print only 120,000 *trillion* paper marks, but the demand for the day had been for a *quintillion.*

One reason for the despair that seized the Germans was their conviction that the inflation was caused principally by the reparations burden imposed by the Treaty of Versailles. This of course played a role, but far from the major one. The reparations payments did not account for more than a third of the total discrepancy between expenditure and income in the German budget in the whole four financial years 1920 through 1923.

A False Prosperity

In the early stages of the inflation German internal prices rose more than the mark fell in the foreign exchange market. But for the greater part of the inflation period—in fact, up to September 1923—the external value of the mark fell much below its internal value. This meant that foreign goods became enormously expensive for Germans while German goods became great bargains for foreigners. As a result German exports were greatly stimulated, and so was activity and employment in many German industries. But this was later recognized as a false prosperity. Germany was in effect selling its production abroad much below real costs and paying extortionate prices for what it had to buy from abroad.

In the last months of the German inflation, beginning in the summer of 1923, internal prices spurted forward and reached the level of world prices, even allowing for the incredibly depreciated exchange. The exchange rate of the paper mark, calculated in gold marks, was 1,523,809 on August 28, 1923. It was 28,809,524 on September 25, 15,476,190,475 on October 30, and was "stablized" finally at 1,000,000,000,000 gold marks on November 20.

One change that brought about these astronomical figures is that merchants had finally decided to price their goods in gold. They fixed their prices in paper marks according to the exchange rate. Wages and salaries also began to be "indexed," based on the official cost-of-living figures. Methods were even devised for basing wages not only on the existing depreciation but on the probable future depreciation of the mark.

Finally, with the mark depreciating every hour, more and more

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Germans began to deal with each other in foreign currencies, principally in dollars.

Placing The Blame

Viewed in retrospect, one of the most disheartening things about the inflation is that no matter how appalling its consequences became, they failed to educate the German monetary economists, or cause them to re-examine their previous sophisms. The very fact that the paper marks began to depreciate faster than they were printed (because everybody feared still further inflation) led these economists to argue that there was no monetary or credit inflation in Germany at all! They admitted that the stamped value of the paper money issued was enormous, but the "real" value—that is, the gold value according to the exchange rate—was far lower than the total money circulating in Germany before the war.

This argument was expounded by Karl Helfferich in official testimony in June 1923. In the summer of 1922 Professor Julius Wolf wrote: "In proportion to the need, less money circulates in Germany now than before the war. This statement may cause surprise, but it is correct. The circulation is now 15-20 times that of pre-war days, while prices have risen 40-50 times." Another economist, Karl Elster, in his book on the German mark, declared: "However enormous may be the apparent rise in the circulation in 1922, actually the figures show a decline"!

Of course all of the bureaucrats and politicians responsible for the inflation tried to put the blame for the soaring prices of everything from eggs to the dollar on to a special class of selfish and wicked people called the "speculators"—forgetting that everybody who buys or sells and tries to anticipate future prices is unavoidably a speculator.

Effect on Production

There is today still an almost universal belief that inflation stimulates trade, employment, and production. For the greater part of the German inflation, most businessmen believed this to be true. The depreciation of the mark stimulated their exports. In February and March of 1922, when the dollar was rising, business seemed to reach a maximum of activity. The *Berliner Tageblatt* wrote in March of the Leipzig Fair: "It is no longer simply a zeal for acquiring, or even a rage: it is a madness." In the summer of 1922 unemployment practically disappeared. In 1920 and 1921, on the other hand, every improvement in the mark had been followed by an increase of unemployment.

The real effect of the inflation,

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however, was peculiarly complex. There were violent alternations of prosperity and depression, feverish activity and disorganization. Yet there were certain dominant tendencies. Inflation directed production, trade, and employment into different channels than they had previously taken. Production was less efficient. This was partly the result of the inflation itself, and partly of the deterioration and destruction of German plant and equipment during the war. In 1922 (the year of greatest economic expansion after the war) total production seems to have reached no more than 70 to 80 per cent of the level of 1913. There was a sharp decline in farm output.

High prices imposed "forced saving" on most of the German population. High paper profit margins combined with tax considerations led German manufacturers to increase their investment in new plant and equipment. (Later much of this new investment proved to be almost worthless.)

There was a great decline in labor efficiency. Part of this was the result of malnutrition brought about by high food prices. Bresciani-Turroni tells us: "In the acutest phase of the inflation Germany offered the grotesque, and at the same time tragic, spectacle of a people which, rather than produce food, clothes, shoes, and milk for its own babies, was exhausting its energies in the manufacture of machines or the building of factories."

There was a great increase in unproductive work. As a result of changing prices and increased speculation, the number of middlemen increased continually. By 1923 the number of banks had multiplied fourfold over 1914. Speculation expanded pathologically. When prices were increasing a hundredfold, a thousandfold, a millionfold, far more people had to be employed to make calculations, and such calculations also took up far more time of old employees and of buyers. With prices racing ahead, the will to work declined. The production of coal in the Ruhr, which in 1913 had been 928 kilograms per miner, had decreased in 1922 to 585 kilograms. The "dollar rate" was the theme of all discussions.

Chaotic Business Conditions

Inefficient and unproductive firms were no longer eliminated. In 1913 there had been, on the average, 815 bankruptcies a month. They had decreased to 13 in August 1923, to 9 in September, to 15 in October, and to 8 in November. The accelerative depreciation of the paper mark kept wiping out everybody's real debt.

The continuous and violent oscillations in the value of money made it all but impossible for manufacturers and merchants to know

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what their prices and costs of production would be even a few months ahead. Production became a gamble. Instead of concentrating on improving their product or holding down costs, businessmen speculated in goods and the dollar.

Money savings (e. g., in savings bank deposits) practically ceased.

The novelist Thomas Mann has left us a description of the typical experience of a consumer in the late stages of the inflation:

"For instance, you might drop in at the tobacconist's for a cigar. Alarmed by the price, you'd rush to a competitor, find that his price was still higher, and race back to the first shop, which may have doubled or tripled its price in the meantime. There was no help for it, you had to dig into your pocketbook and take out a huge bundle of millions, or even billions, depending on the date."[2]

But this doesn't mean that the shopkeepers were enjoying an economic paradise. On the contrary, in the final months of the inflation, business became demoralized. On the morning of November 1, 1923, for example, retail traders fixed their prices on the basis of a dollar exchange rate of 130 billion paper marks. By afternoon the dollar rate had risen to 320 billion. The paper money that shopkeepers had received in the morning had lost 60 per cent of its value!

In October and November, in fact, prices became so high that few could pay them. Sales almost stopped. The great shops were deserted. The farmers would not sell their products for a money of vanishing value. Unemployment soared. From a figure of 3.5 per cent in July, 1923, it rose to 9.9 per cent in September, 19.1 per cent in October, 23.4 per cent in November and 28.2 per cent in December. In addition, for these last four months more than 40 per cent of union members were employed only part time.

The ability of politicians to profit from manufacturing more inflation had come to an end.

Effect on Foreign Trade

Because the paper mark usually fell faster and further on the foreign exchange market than German internal prices rose, German goods became a bargain for foreigners, and German exports were stimulated. But the extent of their increase was greatly overestimated at the time. The relationship between the dollar rate and the internal price rise was undependable. When the mark improved on the foreign exchange market, exports fell off sharply. Germans in many trades viewed any improvement of the mark with alarm. The main

[2] Lecture in 1942, published in *Encounter*, 1975.

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long run effect of the inflation was to bring about a continuous instability of both imports and exports. Moreover, the two were tied together. German industry largely worked with foreign raw materials; it had to import in order to export.

Germany did not "flood the world with its exports." It could not increase production fast enough. Its industrial output in 1921 and 1922, in spite of the appearance of feverish activity, was appreciably lower than in 1913. As I have noted before, because of price and foreign exchange distortions, Germany was in effect giving away part of its output.

But this loss had one notable offset. In the earlier stages of the inflation, foreigners could not resist the idea that the depreciated German mark was a tremendous bargain. They bought huge quantities. One German economist calculated that they probably lost seven-eights of their money, or about 5 billion gold marks, "a sum triple that paid by Germany in foreign exchange on account of reparations."

The Effect on Securities

Those who have lived only in comparatively moderate inflations will find it hard to believe how poor a "hedge" the holding of shares in private companies provided in the German hyperinflation. The only meaningful way of measuring the fluctuation of German stock prices is as a percentage of changes in their gold (or dollar) value, or as a percentage of German wholesale prices. In terms of the latter, and on the basis of 1913 = 100, stocks were selling at an average of 35.8 in December 1918, 15.8 in December 1919, 19.1 in December 1920, 21 in December 1921, 6.1 in December 1922, and 21.3 in December 1923.

This lack of responsiveness is accounted for by several factors. Soaring costs in terms of paper marks forced companies continually to offer new shares to raise capital, with the result that what was being priced in the market was continually "diluted" shares. Mounting commodity prices, and speculation in more responsive "hedges" like the dollar, absorbed so large a proportion of the money supply that not much was left to invest in securities. Companies paid very low dividends. According to one compilation, 120 typical companies in 1922 paid out dividends equal, on the average, to only one-quarter of 1 per cent of the prices of the shares.

The nominal profits of the companies were frequently high, but there seemed no point in holding them for distribution because they would lose so much of their purchasing power in the period between the time they were earned and the day the stockholder got them. They

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were therefore ploughed back into the business. But people desperately wanted a return, and they could make short-term loans at huge nominal rates of interest. (High interest rates, also, meant low capitalized values.)

Moreover, investors rightly suspected that there was something wrong with the nominal net profits that the companies were showing. Most firms were still making completely inadequate depreciation and replacement allowances, or showing unreal profits on inventories. Many companies that thought they were distributing profits were actually distributing part of their capital and operating at a loss. Finally, over each company hung an "invisible mortgage"—its potential taxes to enable the government to meet the reparations burden. And over the whole market hung, in addition, the fear of Bolshevism.

Yet it must not be concluded that stocks were at all stages a poor hedge against inflation. True, the average of stock prices (in gold value on the basis of 1913 = 100) fell from 69.3 in October 1918 to 8.5 in February 1920. But most of those who bought at this level made not only immense paper profits but real profits for the next two years. By the autumn of 1921 speculation on the German Bourse reached feverish levels: "Today there is no one," wrote one financial newspaper, "—from lift-boy, typist, and small landlord to the wealthy lady in high society—who does not speculate in industrial securities."

But in 1922 the situation dramatically changed again. When the paper index is converted into gold (or into the exchange rate for the dollar) it fell in October of that year to only 2.72, the lowest level since 1914. The paper prices of a selected number of shares had increased 89 times over 1914, but wholesale prices had increased 945 times and the dollar 1,525 times.

After October 1922, once again, the price of shares rapidly began to catch up, and for the next year not only reflected changes in the dollar exchange rate, but greatly surpassed them. The index number in gold (1913 = 100) rose to 16.0 in July 1923, 22.6 in September, 28.5 in October, and 39.4 in November. When the inflation was over, in December 1923, it was 26.9. But this meant that shares ended up at only about a fourth of their gold value in 1913.

The movement of share prices contributed heavily to the profound changes in the distribution of wealth brought about in the inflation years.

Interest Rates

In an inflation, lenders who wish to protect themselves against the probable further fall in the purchas-

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ing power of money by the time their principal is repaid, are forced to add a "price premium" to the normal interest rate. This elementary precaution was ignored for years by the German Reichsbank. From the early days of the war until June 1922 its official discount rate remained unchanged at 5 per cent. It was raised to 6 per cent in July, to 7 per cent in August, 8 per cent in September, 10 per cent in November, 12 per cent in January 1923, 18 per cent in April, 30 per cent in August, and 90 per cent in September.

But even the highest of these rates did nothing to deter borrowing by debtors who expected to pay off in enormously depreciated marks. The result was that the Reichsbank's policy kindled an enormous credit inflation, based on commercial bills, on top of the enormous government inflation based on Treasury bills. After September 1923, a bank or private individual had to pay at a rate of 900 per cent per annum for a loan from the Reichsbank. But even this was no deterrent. At the beginning of November 1923 the market rate for "call money" rose as high as 30 per cent per day—equivalent to more than 10,000 per cent on an annual basis.

The Monetary Reform

There is not space here for an adequate summary of the redistribution of wealth, the profound social upheaval, and the moral chaos brought about by the German inflation. I must reserve them for separate treatment, and move on to discuss the monetary reform that ended the inflation.

On October 15, 1923, a decree was published establishing a new currency, the rentenmark, to be issued beginning November 15. On November 20 the value of the old paper mark was "stabilized" at the rate of 4,200 billion marks for a dollar, or one trillion old paper marks for a rentenmark or gold mark. The inflation came to a sudden halt.

The result was called "the miracle of the rentenmark." Indeed, many economists find it difficult to this day to explain exactly why the rentenmark held its value. It was ostensibly a mortgage on the entire industrial and agricultural resources of the country. It was provided that 500 rentenmarks could be converted into a bond having a nominal value of 500 gold marks. But neither the rentenmarks nor the bond were actually made convertible into gold.

Moreover, the old paper marks continued to be issued at a fantastic rate. On November 16 their circulation amounted to 93 quintillions; it soared to 496 quintillions on December 31, and continued to rise through July of the following year.

Bresciani-Turroni is inclined to

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attribute the "miracle" of the rentenmark to the desperate need for cash (more and more people had stopped accepting paper marks), and to the word "wertbeständig" (constant value) printed on the new money. The public, he thinks, "allowed itself to be hypnotized" by that word.

There is a more convincing explanation. Though paper marks continued to be issued against *commercial* bills, from November 16 on the discounting of *Treasury* bills by the Reichsbank was stopped. This meant that at least no more paper money was being issued on behalf of the government to finance its deficits. In addition, the Reichsbank intervened in the foreign exchange market. In effect it pegged the rentenmark at 4.2 to the dollar and the old marks at 4.2 trillion to the dollar. Germany was now on a dollar exchange standard!

The Stabilization Crisis

The effect was dramatic. In the last months of the inflation the German economy was demoralized. Trade was coming to a standstill, many people were starving in the towns, factories closed. As we have seen, unemployment in the trade unions, which had been 6.3 per cent in August, rose to 9.9 per cent in September, 19.1 per cent in October, 23.4 per cent in November, and 28.2 per cent in December. (The inflation technically came to an end in mid-November, but its disorganizing effects did not.) But after that, confidence quickly revived, and trade, production, and employment with it.

Bresciani-Turroni and other writers refer to the "stabilization crisis" that follows an inflation which has been brought to a halt. But after a hyperinflation has passed beyond a certain point, any so-called "stabilization crisis" is comparatively mild. This is because the inflation itself has brought about so much economic disorganization. When it is said that unemployment rose after the mark stabilization, the statement is true at best only as applied to one or two months. Bresciani-Turroni's month-by-month tables of unemployment end in December 1923. Here is what happened in the nine months from October 1923 through June 1924:[3]

October 1923	534,360
November 1923	954,664
December 1923	1,473,688
January 1924	1,533,495
February 1924	1,439,780
March 1924	1,167,785
April 1924	694,559
May 1924	571,783
June 1924	401,958

[3] The figures do not include part-time workers or employees in public emergency projects, but only unemployed workers eligible for unemployment compensation. I am indebted to Prof. Günther Schmölders for supplying them.

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Thus by June of 1924 unemployment had returned to a normal figure.

There was a real stabilization crisis, but it showed itself in a different way. One of the things that happens in an inflation, and especially in a hyperinflation, is that labor is employed in different directions than the normal ones, and when the inflation is over, this abnormal demand disappears. During an inflation labor is drawn into luxury lines—furs, perfumes, jewelry, expensive hotels, nightclubs—and many essentials are comparatively neglected. In Germany labor went particularly into fixed capital, into the erection of new plant, and into the overexpansion of industries making "instrumental" goods. And then, suddenly, as one industrialist bluntly put it, many of these factories were found to be "nothing but *rubbish*." In many cases it was soon found to be a mistake even to keep them closed down in the hope of reopening later. The mere cost of maintenance was excessive. It was cheaper to demolish them.

In brief, when the inflation ended, the distortions and illusions to which it had given rise came to an end with it. Parts of the economy had been overdeveloped at the expense of the rest. The inflation had produced a great lowering of real wages. In the first months of 1924 a big increase took place in the average incomes of individual workers as well as in employment. The index of real incomes rose from 68.1 in January 1924 to 124 in June 1928. This led to a great increase in the demand for consumption goods, and to a corresponding fall in the production of capital or instrumental goods. There was suddenly recognized to have been a great overproduction of coal, iron and steel. Unemployment set in in these industries. But once again, careful attention was paid to production costs, and there was a return to labor efficiency.

There was apparently a great shortage of working capital, if we judge by interest rates. In April and May of 1924 the rate for monthly loans rose in Berlin to a level equivalent to 72 per cent a year. But a large part of this reflected continuing distrust of the stability of the new currency. At the same time loans in foreign currencies were only 16 per cent. And in October 1924, for example, when rates for loans in marks had fallen to 13 per cent, loans in foreign currencies were down to 7.2 per cent.

It would be difficult to sum up the whole German inflation episode better than Bresciani-Turroni himself did in the concluding paragraph of his great book on the subject:

"At first inflation stimulated production because of the divergence

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between the internal and external values of the mark, but later it exercised an increasingly disadvantageous influence, disorganizing and limiting production. It annihilated thrift; it made reform of the national budget impossible for years; it obstructed the solution of the Reparations question; it destroyed incalculable moral and intellectual values. It provoked a serious revolution in social classes, a few people accumulating wealth and forming a class of usurpers of national property, whilst millions of individuals were thrown into poverty. It was a distressing preoccupation and constant torment of innumerable families; it poisoned the German people by spreading among all classes the spirit of speculation and by diverting them from proper and regular work, and it was the cause of incessant political and moral disturbance. It is indeed easy enough to understand why the record of the sad years 1919-23 always weighs like a nightmare on the German people."

These lines were first published in 1931. There is only one thing to add. The demoralization that the debasement of the currency left in its wake played a major role in bringing Adolf Hitler into power in 1933.

Author's Note—For most of the statistics and some of the other information in this article I am indebted to two books: chiefly to *The Economics of Inflation,* by Costantino Bresciani-Turroni (London: George Allen & Unwin, 1937), and partly to *Exchange, Prices, and Production in Hyper-Inflation: Germany, 1920-1923,* by Frank D. Graham (Princeton University Press, 1930, and New York: Russell & Russell, 1967). These authors in turn derived most of their statistics from official sources.

IDEAS ON LIBERTY

Hans F. Sennholz

IT IS RARELY UNDERSTOOD that inflation generates a vast redistribution process. It shifts wealth and income from the pockets of creditors to those of debtors. It reduces the standards of living of people with fixed incomes, in particular, the aged and handicapped. And it diminishes the value of savings bonds and savings accounts, mortgages and life insurance policies, pensions and other savings. It causes the economic instabilities of the trade cycle. And, above all, the losses which inflation inflicts on millions of people breed a political and economic radicalism that tends to destroy our private property order.

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Faith of Our Fathers

CLARENCE B. CARSON

HISTORY, it has been said, is a seamless cloth. The thought is apt. You cannot clip a thread within it and attempt to extricate it without unraveling the whole. There have been efforts to tell the history of the United States with the role of religion either excised from it or altered within it. One common alteration occurs in those textbooks which claim that the Pilgrims and Puritans came to America for freedom of religion.

They did not. They came in order to be able to practice their religion. The difference is by no means merely a quibble. Freedom of religion, as it is now understood, is a secular concept. It is probably even more highly valued by those who have no religious faith than by active believers. To be able to practice one's faith is only of value to him who has a faith to practice. It is a sacred, not a secular, value. The Puritans at the time of settlement could no more conceive of the desirability of freedom of religion than Treasury officials today can conceive of the desirability of freedom of counterfeiting.

My point is that books on American history often either secularize religious values, treat them as alien, or leave them out of account. Yet, without these religious foundations there could have been no United States as it was and is. There is no knowing American history without grasping its underpinnings in Judeo-Chris-

Dr. Carson has written and taught extensively, specializing in American intellectual history. His most recent book, *The Rebirth of Liberty: The Founding of the American Republic 1760-1800* is now available in a 350-page attractive Bicentennial paperback at $3.00 from the Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.

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tian faith. America as it was and is cannot even be successfully imagined without the thread of faith woven into the cloth of history.

Biblically Based and Christian Settlement of America

American history cannot be imagined without the powerful evocative phrases of the King James Version of the Bible, or without the story of our origins in Genesis:

> In the beginning God created the heavens and the earth. The earth was without form, and void; and darkness was on the face of the deep. And the Spirit of God moved upon the face of the waters.
>
> *Genesis 1: 1-2.*

Or, without the account of man's place in the creation:

> And God said, Let us make man in our image, after our likeness: and let them have dominion over the fish of the sea, and over the fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the earth.
>
> So God created man in his *own* image, in the image of God created he him; male and female created he them.
>
> *Genesis 1: 26-27.*

The fundamental character of all proper law is revealed in the Ten Commandments. Though two of them do command appropriate affirmative action, the remainder are prohibitive in nature. They are brief, concise, and are readily understood. A United States without the Ten Commandments in its background would have been a United States without transcendent law upon which to build:

1. Thou shalt have no other gods before me.
2. Thou shalt not make unto thee any graven image.
3. Thou shalt not take the name of the Lord thy God in vain.
4. Remember the sabbath day, to keep it holy.
5. Honour thy father and thy mother.
6. Thou shalt not kill.
7. Thou shalt not commit adultery.
8. Thou shalt not steal.
9. Thou shalt not bear false witness against thy neighbor.
10. Thou shalt not covet.

Excerpted and numbered from Exodus 20: 3-17.

Most of those who settled in the New World were Christian, nominally or devoutly as the case might be. Their attitude toward life had been winnowed through and conditioned by the Christian perspective. This meant many things, but one of its meanings is never to be ignored by the historian: That good ultimately triumphs over evil, that life is not necessarily tragic but that it is potentially triumphant when it is in accord with God's will. America without the assurance of this Revelation could not have been as it has been:

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In the beginning was the Word, and the Word was with God, and the Word was God. He was in the beginning with God; all things were made through him, and without him was not anything made that was made. In him was life, and the life was the light of men. The light shines in the darkness, and the darkness has not overcome it.

John 1: 1-5 (RSV)

This assurance comes through in the beautiful promises of the Beatitudes:

Blessed are the poor in spirit, for theirs is the kingdom of heaven.

Blessed are those who mourn, for they shall be comforted.

Blessed are the meek, for they shall inherit the earth.

Blessed are those who hunger and thirst for righteousness, for they shall be satisfied.

Blessed are the merciful, for they shall obtain mercy.

Blessed are the pure in heart, for they shall see God.

Blessed are the peacemakers, for they shall be called the sons of God.

Blessed are those who are persecuted for righteousness' sake, for theirs is the kingdom of heaven.

Blessed are you when men revile you and persecute you and utter all kinds of evil against you falsely on my account. Rejoice and be glad, for your reward is great in heaven, for so men persecuted the prophets who were before you.

Matthew 5: 3-11 (RSV)

Roman Catholicism

The Christian religion was for a thousand years of its history represented primarily by the Roman Catholic Church. Within that fold many doctrines were shaped and many great preachers and teachers held forth. While the Catholic Church was suspect to some of the Founders of the United States, it is nonetheless the case that the Faith of Our Fathers found many of its underpinnings in that faith. Here is a statement from the monastic ideal of the Middle Ages:

This treasure, then, namely Christ, our God and Lord, who was made for us as both redeemer and reward, He Himself both the promiser and the prize, who is both the life of man and the eternity of the angels—this, I say, store away with diligent care in the recesses of your heart. On Him cast the anxiety of any care whatsoever. In Him delight through the discourse of zealous prayer. In Him refresh yourself by the nightly feasts of holy meditation. Let Him be your food, and your clothing no less. If it should happen that you lack anything of external convenience, do not be uncertain, do not despair of His true promise in which He said "Seek ye first the kingdom of God, and all things shall be added unto you. . . ."

Peter Damiani (Eleventh Century)

Protestant Reformation

Even more, however, is the United States inconceivable without the Protestant Reformation. Most of

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the colonies were settled by one or more offshoots of this movement. The emphasis upon reason, Scripture, and decision by the individual—hallmarks of the Reformation—was never more dramatically stated than by Martin Luther at the Diet of Worms in his refusal to recant:

> Since your Majesty and your lordships ask for a simple reply, I shall give you one without horns and without teeth; unless I am convinced by the evidence of Scriptures or by plain reason ... I am bound by the Scriptures I have cited and my conscience is captive to the Word of God. I cannot and will not recant anything, for it is neither safe nor right to go against conscience. I can do no other.
>
> Martin Luther (Diet of Worms, 1521)

The tendency in Protestant lands, however, was to have one established church. Those who did not want such an establishment, or wanted a different one, were often persecuted in their home lands. Some of these sought refuge in America. The Pilgrims were the first of such English groups to do so. The character of the faith of one of their leaders, William Bradford, comes through in this selection from his writing:

> What could now sustain them but the Spirit of God and His grace? May not and ought not the children of these fathers rightly say: "Our fathers were Englishmen which came over this great ocean, and were ready to perish in this wilderness; but they cried unto the Lord, and He heard their voice and looked on their adversity," etc. "Let them therefore praise the Lord because he is good: and His mercies endure forever." Yea, let them which have been redeemed of the Lord, shew how He hath delivered them from the hand of the oppressor. When they wandered in the desert wilderness out of the way, and found no city to dwell in, both hungry and thirsty, their soul was overwhelmed in them. Let them confess before the Lord his lovingkindness and His wonderful works before the sons of men.
>
> William Bradford,
> *Of Plymouth Plantation.*

The Great Awakening

At the outset, many of those who settled in the New World were divided from one another by religious differences. The fact that most of them were Protestant served at first more to divide than to unite them. Over the years, doctrinal antipathies moderated. Perhaps the single most important of the moderating influences was the Great Awakening. In the middle of the eighteenth century a great revival spread through the colonies. Though it did provoke some divisions within denominations, its tendency was to shift the emphasis from points of doctrine to the experience of conversion and a spiritual attitude toward life. Denominations continued to

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proliferate but their differences became more a matter of modes of organization and tastes as to ritual than of dogma and doctrine. The Great Awakening provided a widely shared evangelistic base for Protestant Christianity. The tenor of this evangelism appears in this excerpt from a sermon by Jonathan Edwards:

> I invite you now to a better portion. There are better things provided for the sinful miserable children of men. There is a surer comfort and more durable peace: comfort that you may enjoy in a state of safety and on a sure foundation: a peace and rest that you may enjoy with reason and with your eyes wide open; having all your sins forgiven . . . ; being taken into God's family and made his children; and having good evidence that your names were written on the heart of Christ before the world was made. . . .
>
> Jonathan Edwards

The God of Creation

In the great documents of the American Revolution there is often an explicit reliance upon natural law and an implicit underlying dependence on the inherited religious faith. The God of nature and the God revealed in Scripture was the same God. There were, however, differences in the interpretation of Scripture, differences which did not extend to the natural law. Hence, the appeal in the Declaration of Independence was to the God of Creation:

> When in the Course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the Powers of the earth, the separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation.
>
> We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness. . . .
>
> *Declaration of Independence, 1776*

The practice of having a written constitution is American in origin. It was grounded in their British heritage and colonial experience, but it was particularly informed by their Christian and Protestant religion. The Founders were people of the Book, the Bible, the recorded word. As Protestants mainly, they attached an unusually high importance to Scripture and to its careful exposition. It was, to them, the highest authority. The United States Constitution became for them, out of this tradition, the highest authority within the country. It was written, precise, and was to be carefully interpreted and observed.

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A Subtle Parallel

One part of the Constitution has been especially revered over the years. It is the first ten amendments, commonly called the Bill of Rights. Some of its antecedents are generally understood to be the Magna Carta and the English Bill of Rights. But its most profound antecedent is usually ignored. It is more difficult than it may at first appear to imagine that the First Ten Amendments have played the role they have without the prior position of the Ten Commandments in the Judeo-Christian religion. It is not just that each of them numbers ten, though they do. It is considerably more. They are similar in form. The Ten Commandments usually begin with "Thou shalt not." The First Ten Amendments are equally prohibitive in their language: "Congress shall make no law . . . , No Soldier shall . . . , shall not be violated . . . , Excessive bail shall not be required . . . ," and so forth. More, the Ten Commandments forbid individuals to do acts that would be harmful to anyone. The First Ten Amendments forbid *government* to do acts arbitrarily detrimental to our life, liberty, and property. The Ten Commandments proceed from our Maker to us. The First Ten Amendments proceed from the makers of government to it. Can it be doubted that they draw subtle force from the parallel?

The Faith of Hamilton

The Founding Fathers were not particularly renowned for their piety. But the springs of religious faith often ran deep within them, to break forth only on extraordinary occasions. So it was with Alexander Hamilton. It was his fate to meet his death in a duel with Aaron Burr. Perhaps "fate" is the wrong word; he took a course which exposed him to such a death if Burr so chose. Hamilton believed that dueling was wrong and knew that it was against the law. Yet, when challenged he felt that he must participate. The last note to his wife written on the night before the duel contained these thoughts, among others:

> . . . The scruples of a Christian have determined me to expose my own life to any extent, rather than subject myself to the guilt of taking the life of another. This much increases my hazards, and redoubles my pangs for you. But you had rather I should die innocent than live guilty. Heaven can preserve me, and I humbly hope will; but, in the contrary event, I charge you to remember that you are a Christian. God's will be done! The will of a merciful God must be good. . . .

On the day of the duel both Hamilton and Burr raised their pistols to the ready position on command. Burr then aimed and fired directly at Hamilton. Hamilton fired into the air, as he had said he would do. Hamilton died

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from the wounds inflicted on him. It is difficult to imagine America without men devoted to principles founded upon their faith.

Washington's Farewell

Nor should we imagine an America without the guidance of Washington's Farewell Address. Nor would that address have been the same without its references to religious underpinnings:

> Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. In vain would that man claim the tribute of patriotism who should labor to subvert these great pillars of human happiness—these firmest props of the duties of men and citizens. The mere politician, equally with the pious man, ought to respect and cherish them. A volume would not trace all their connections with private and public felicity. Let it simply be asked, Where is the security for property, for reputation, for life, if the sense of religious obligation *desert* the oaths which are instruments of investigation in courts of justice? And let us with caution indulge the supposition that morality can be maintained without religion. Whatever may be conceded to the influence of refined education on minds of peculiar structure, reason and experience both forbid us to expect that national morality can prevail in exclusion of religious principle.
>
> George Washington, *Farewell Address*

But, then, the United States of America could hardly be conceived without the Faith of Our Fathers.

Sacred Rights of Mankind

IDEAS ON LIBERTY

THE SACRED RIGHTS of mankind are not to be rummaged for among old parchments or musty records. They are written as with a sunbeam, in the whole volume of human nature, by the hand of Divinity itself, and can never be erased or obscured by human power. This is what is called the law of nature, which being coeval with mankind and dictated by God himself, is, of course, superior in obligation to any other. No human laws are of any validity if contrary to this. It is binding over all the globe, in all countries, and at all times.

ALEXANDER HAMILTON

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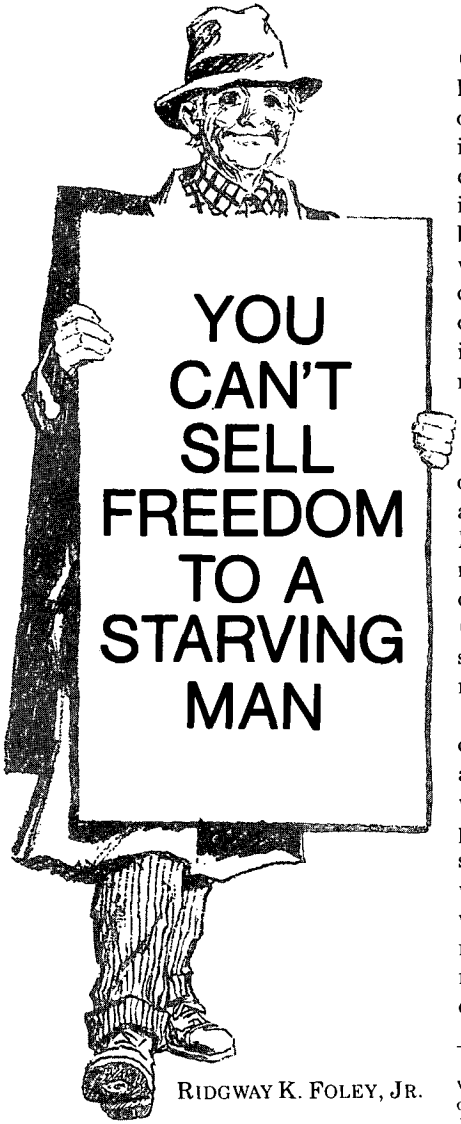

YOU CAN'T SELL FREEDOM TO A STARVING MAN

RIDGWAY K. FOLEY, JR.

Mr. Foley, a partner in Souther, Spaulding, Kinsey, Williamson & Schwabe, practices law in Portland, Oregon.

OF ALL THE CLICHES denigrating liberty, the most pernicious consists of the comment, designed in any of its varying forms to terminate the conversation entirely, that "your ideals and ideas may be laudable, but you can't talk liberty to a man with an empty belly or whose children want for food and clothing." This essay proposes to investigate the validity of that response.

* * * *

Freedom consists of the absence of organized, coercive restraint against individual human action.[1] It is indivisible in two respects: (1) restraint in one aspect of life affects creative action in other categories; (2) restraint of one member of society adversely affects all other men.

Consider the first postulate. One cannot enjoy meaningful liberty of association or freedom of speech while suffering under economic or political bondage. Freedom of speech or press offers an illusory value if the potential speaker or writer cannot purchase air time on radio or television, or a soap box, or newsprint from the governmentally-controlled factory, or a sound truck,

[1] For a detailed discussion see Foley, Ridgway K., Jr., "Individual Liberty and the Rule of Law," 21 *Freeman* 357-378 (June 1971), 7 *Will. L.J.* 396-418 (Dec. 1971), and Foley, Ridgway K., Jr., "A Rationale For Liberty," 23 *Freeman* 222-229 (April 1973).

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either because of restrictive regulatory laws preventing free entry into the market, or by virtue of discriminatory norms against producers by means of economic controls, or because of debasement by means of state monopoly of the medium of exchange. The right to vote means little if the government apparatus counts results for but a single candidate, or if the state limits the access to the polling booth or ballot box by enactment and enforcement of civil and criminal penalties.

Recur to the second proposition. Simply put, *my freedom depends on yours.* Deprivation of the rights of the slave affects the master in several discrete ways.

- First, the predator must expend a portion of his creative energy in the destructive pursuit of constraining his fief. Absent coercion, he could devote his entire energy resources to creative endeavors. Wars provide an apt example of squandered creativity: Witness the millions of barrels of oil (which could have heated homes and propelled automobiles) wasted in recent violence.
- Second, looters lose the chance to thrive upon the created value which the slave, if free, would produce and trade for other goods, services and ideas. The material well-being of any society depends upon the aggregate of creative output from each member, the proficiency of each individual producer, and the velocity of exchange (a factor of the voluntary channels of communication). Slaves produce only the amount necessary to maintain life in a barely acceptable station and to avoid or reduce pain.
- Third, masters lose qualitatively, since the *quality* of output diminishes with the introduction of compulsion. A coercive society enjoys fewer goods, begrudging services and less exciting ideas and culture than a free society.
- Fourth, and perhaps most saliently, a slave state loses *moral* force as well as material largess, a subject discussed hereafter.

We may define liberty, then, in Leonard Read's felicitous phrase, as the absence of man-concocted restraints upon creative human action.[2] At the ideal, each man should be entitled to manage his own life and to seek his own destiny as he sees fit, so long as he observes the equal and reciprocal freedom deserved by every other man. Such a concept limits the role of the state—the official restraining force imposed upon society—to prevention of aggression and coercive settlement of disputes by rules of common justice.

[2] Read, Leonard E., "Justice versus Social Justice." *Who's Listening?* (The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York, 1973) 93 et seq.

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The Morality of Theft

Observation of the passing scene reveals many instances of looting and theft. One unschooled in the philosophy of freedom might immediately conclude that such a statement refers to the rapid increase in violent or deceitful crimes such as forgery, robbery, burglary, obtaining money by false pretenses, and shoplifting penalized by the several state or national governments. In fact, I refer to the unpenalized, officially-sanctioned, state-favored instances of theft which appear in guises too numerous to mention. Every occasion when the state takes property from an unwilling donor and gives it to some other individual affords an example of legalized plunder. Food stamps, subsidies to Penn Central and Lockheed Aircraft, social security, inflation, mandatory automobile insurance, civil tort rules which "diffuse" risks by imposing liability without fault—the list is truly endless, limited only by the ingenuity of men abusing power conferred upon them by the political system. Appellations of "transfer payments," "negative income taxation," "redistributive liability," and the like cannot cloak the true nature of the act: *Theft.*

Why decry the concept of theft, if performed by the pure of heart for a commendable purpose? After all, most proponents of these many and varied legislative or judicial enactments seek grand and deserving goals of preventing hunger, illness, and alienation or providing "necessary" goods and services. Few of them, despite their arrogance and predilection to power, really exemplify consummate evil.

The answer to the moral question lies in contemplation of ends and means. Few men of virtue and good will dispute the ideal of dispelling poverty, illness and loneliness, or of providing everyone with food for thought and body. Most observers agree upon goals—they diverge upon the means to the end. Those imbued with the freedom philosophy recognize that the end pre-exists in the means,[3] that filthy means will defile innocent and praiseworthy ends.

Theft deserves disdain because it conflicts with fundamental morality, with the right to life, and with the precept of justice. A seminal moral rule commands treatment of individual human beings as ends, not as means—as persons of worth, not as objects to be molded. The thief treats the victim as a means to his own ends. The legally-protected thief performs a greater iniquity for he refuses to acknowledge the moral opprobrium necessarily attached to

[3] See Read, Leonard E., "The Bloom Pre-Exists in the Seed." *Let Freedom Reign* (The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York, 1969) 78-86.

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his crime; he treats the victim as unworthy to manage his own affairs.

Again, theft contradicts the concept of a human being's right to live his life in accordance with the dictates of his conscience. Property consists of the value which man creates by the application of his being and his talents to natural resources; it can only be viewed rationally as an extension of a life. One lives by creating; one dies by stagnating. Thus, deprivation of property amounts to a partial taking of human life. Moreover, the act of thievery devastates the fundamental precept of justice: Respect for free individual choice.[4] Approval of the power to forcibly or deceitfully deprive another of a part of his life *necessarily contradicts* a respect for the human right to choose between alternatives.

In essence, comprehension of the moral questions associated with theft devolves to an inquiry: Why doesn't might make right? Theft, after all, can only be accomplished by the application of stealth and trickery or by employment of personal or political force. The fact and the scale of legally-sanctioned plunder renders this inquiry no mere philosopher's debating point. It is all too real and affects each of us in striking and personal fashion.

[4] Foley, Ridgway K., Jr., "In Quest of Justice," 24 *Freeman* 301-310 (May 1974).

Immanuel Kant[5] provided some insight into the moral question of whether "might makes right" when he suggested the "silver rule" as a measuring rod: Individuals should shun actions which they would not will as universal rules of conduct. Few rational beings would voluntarily choose to live in a world governed by force, without moral constraint of any kind. Chaos necessarily reigns; personal planning becomes impossible; life terminates early and after an unpleasant duration. Such conditions would forestall even rudimentary exchange or growth of capital, relegating mankind to the cave and the forests from which it so recently and hesitatingly emerged. Merely imagining a world where theft, or rape, or murder occurred on a daily basis without official reprisal registers shock on the minds of most human beings. Such conduct would invite retaliation in the form of blood feuds, vigilante justice or civil war.

One could refute the contention that "might makes right" on three bases,[6] any one of which would

[5] Kant, Immanuel, *Fundamental Principles of the Metaphysic of Morals* (The Liberal Arts Press, New York, 1949) 21.

[6] Obviously, this essay does not purport to deal with the questions of why might does not make right or with the nature and scope of an alternative postulate for mankind in great detail. Such an undertaking requires more extensive development than is requisite for the topic under discussion.

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serve as sufficient justification for a contrary rule.

• First, experience dispels any necessary correlation between force and propriety. Recorded history imparts example after example of the use of violence to accomplish improper goals—propriety measured by the subjective values of those deprived of life, liberty or property. The neighborhood bully may be stronger than you, but that doesn't mean he possesses any greater native intelligence, charm, wit, cultural accomplishments or other attributes more or less universally desirable. Indeed, the contrary is more often true: The bully, be he individual, corporate or national in scope, often possesses a low, mean and not particularly endearing character.

• Second, a related pragmatic reason flows from the Kantian silver rule: Force and power tend to breed more aggression, and man can not exist as well (or at all) spiritually or materially in a chaotic world regularly visited by coercion. Might-makes-right just plain fails to work as well as the alternative. A better material and spiritual life with happier men and more abundant goods and services flows from cooperation, not coercion.

• Third, common morality, denoted as natural law, the theory of natural rights, Christianity, rationality, or some other similar phrase suggests that men should not treat other men inhumanely. All three reasons interrelate, but the third or moral concept differs from its siblings in one important respect: It constitutes an appeal to faith rather than provable, empirical fact. However, this feature does not deprive the tenet of validity. History manifests a growing recognition that each individual human being possesses inalienable natural rights merely because of his humanity, and that no other individual should trespass upon such rights in the absence of prior personal aggression. If this precept be relegated to the status of a mere value judgment, it certainly has gained ascendency in recent years although it still falls far short of universal acceptance. Since theft of private property involves the deprivation of an extension of one's life—our essential humanity derives in part from the value we create—theft violates the principle of common morality or natural rights.

Therefore, one can say with the confidence undergirded by logic and natural law that theft in general constitutes an immoral act because might does not make right and power tends to deprive men of a portion of their life. It remains to consider whether theft can ever be justified under any circumstances.

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The admonition, "you can't sell freedom to a starving man," possesses two root assumptions denying the universality of the normative rule that theft constitutes immorality. If freedom varies, directly or inversely, with the visceral satisfactions of the human being, it follows that (1) hungry people need not abide by rules of common morality while productive people must follow such rules and, (2) freedom can not provide the precondition necessary to prevent want and poverty. Neither assumption can withstand rigorous analysis.

The Universality of Moral Conduct

No accepted ethical or religious code exempts starving men from adherence to established or accepted standards *except* if that code be based upon the doctrine of might-makes-right. The Marxian tenet "from each according to his ability, to each according to his need" presupposes a social agency which will forcibly compel transfer from "producers" to "needy," as well as perform the concomitant function of determining "ability" and "requirement." Every other system dependent upon transfer payments or social redistribution of income relies upon *force*. Only these systems justify the use of violence by hungry, ill-clothed, or other "needy" folk in order to satisfy their wants. Contrast the known axiological precepts handed down through history: Do the Judeo Christian heritage, the Islamic tradition, Hindu teachings or the like differentiate between producers and consumers insofar as their normative conduct is concerned? Merely to state the question elicits a negative response.

One should not confuse the assertion that the poor as well as the producer should obey the same rules with the question of whether the creator of goods, services, and ideas should share his abundance with others less fortunate on an individual and voluntary basis. The two concepts, while related, state two entirely different principles: (1) all men regardless of status should respect the lives, liberties, properties, choices, and subjective values of all other individuals who do not commit aggression; (2) one blessed with a surfeit of material or spiritual goods should share with less fortunate individuals on a mutually-satisfying voluntary basis. A violation of the first axiom deserves human reprisal to revenge the breach, protect others similarly situated, and deter like conduct. No human sanction should attend a violation of the second axiom because no human being possesses the right, the insight, or the ability to enforce their ethical norm since the norm itself depends upon subjective

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views of the Eternal Truth of the Universe.

Unjustifiable Intervention

In essence, the suggestion that hungry men can not appreciate liberty results from a confusion of these two separate postulates. Similarly, most justification of government intervention into private lives stems from a perversion of these two distinct rules, each touching a specific aspect of human action. The canard that an ill-fed individual can not comprehend freedom springs from a belief that it is proper to invade or destroy the human rights of others in order to secure a "good" end, such as the prevention of poverty or ill health.

In simple words, one should not destroy another's right to choose except where that actor would not willingly select the course of action which would lead to sharing with others whom the party possessing power perceives as appropriate beneficiaries. This commingling of the two moral precepts renders each of them nugatory. The first axiom suffers because the exception guts the entire meaning. The second axiom falls because voluntarism becomes coercion and thus obviates the entire concept. A sense of wrongdoing clouds the whole transaction, leaving producer-victim, the transferring power, and poor recipient-beneficiary each with a pervasive recognition of evil inherent in their affair which does not accord with moral law.

In like manner, the belief that moral rules need not be universally applied partakes of the corruption of the two separate axioms: You can't sell freedom to a starving man because he is first justified in invading the rights of others in order to satisfy his wants because they ethically should assist him.

Several reasons, each sufficient alone, support the proposition that moral conduct applies universally.

- First, separate treatment betrays the egalitarian ideal, the subject of so much current prattle. Yet it is in this precise context that equality deserves meaning, for true juristic equality means equality before the law—equal rights, equal responsibilities.
- Second, relative morality, on whatever basis, necessarily results in disillusionment, bitterness, hatred, envy, and other unlovely human attributes: In short, such a dichotomy will bring the sinister side of human nature to the fore. The taker will take even when the justification disappears, coming to believe that taking constitutes a personal right; the victim will resent this invasion of his life and fight back in many and myriad ways including the use of force and cunning, the production of shoddy goods, or a transfer to the taker

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class. Power and violence naturally tend to breed similar offspring.

● Third, definition of terms renders application of the distinction impractical if not impossible. Who shall define "production" and "need" (or who "starves"), and how shall these terms be defined? Starvation and need vary by the minute; they represent highly subjective decisions, for almost every individual "needs" something he does not possess, given a world full of insatiable subjective wants and blessed with limited resources. Acceptance of a dual standard dependent upon hunger pangs would reduce morality to an ephemeral and transitory discipline subject to endless debate and a chaotic result: Victims who honestly believe that they fall within the taker class will take umbrage; they may even fight back, leading to unending aggression.

Thus, common sense makes manifest that moral rules must apply in an evenhanded manner. Starving men possess no right to invade the persons or property of others, nor are they justified or exempt from ethical rules precluding such action. Freedom attaches equally to all men: It includes the freedom to fail as well as succeed. Life's losers cannot vent their spleen on those who are more successful, and thereby receive moral approval.

Freedom Dispels Want

One who claims that "you can't sell freedom to a starving man" really means "freedom is all right in its place, but these people are starving and they will receive sustenance only if I coerce you into giving them food." This proposition fails on two counts.

● First, the near-universal acceptance of the second axiom (the obligation to share) and mankind's natural empathy for fellow human beings in trouble virtually guarantees that no one shall starve in a free society. Strangely enough, the acceptance of the second axiom and man's sympathetic response become heightened the more open society becomes; statism and compulsion cultivate ugliness, alienation and a lack of camaraderie. The guarantee against starvation does not insure against want of material things; mankind will always experience unfulfilled desires, given his nature of a being possessing insatiable wants in a world of limited resources.

● Second, the statement seems to contend that a free society cannot produce and distribute those goods, services, and ideas required to alleviate starvation. The converse is true. A free market, operating without restraints upon human creative output, produces a greater abundance of material value than any other method known to mankind

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because the free market or voluntary exchange system accords with the basic nature of man. The market reflects the competing subjective values of each member of society and thus more nearly approximates the sum of all those desires.

This assertion of the material productiveness of the market does not rest merely upon unproved theory; it gains support from empirical and historical fact. The freer the culture, the better clothed, fed and housed its citizens. The rapid improvements in the standard of living of all Americans during the nation's first century derived from the relative freedom of the citizenry. Compare the average life span in medieval England (5 years) with that of the present day United States (70 years) and one immediately perceives that we heard relatively little about the "starving man" in history because he died so young. Few of the wealthy in merrie olde England lived as well as the average high school dropout today.

Stripped to its essence, the cliche "you can't sell freedom to a starving man" exemplifies a brazen demand by the one uttering the response that he be accorded the power to impose his will upon unwilling human beings—all in the good name of the elimination of poverty. Logic, common sense, empirical fact, and history demonstrate that just the contrary effect will take place, that coercion results in fewer individuals enjoying fewer goals which they subjectively value.

The Curse of Gradualism

One can interpret the phrase under discussion in yet another manner. It could mean that a hungry man will not listen to, or understand, the esoteric discussion of liberty and will voluntarily choose an aggressive society to alleviate his suffering. Thus, runs the argument, someone in power must appease the voracious masses before educating them to the virtues of liberty.

Insofar as the question depicts a communication problem, believers in liberty must hone their tools of expression to fit every need. Relative freedom helped restore conflict-ravaged West Germany after the Second World War; the Germans, hungry as they were, accepted the ideas and responsibilities of freedom from Mr. Erhard. The concept of freedom and its relation to prosperity bear retelling because all of us need constant reminders, but conveyance of the idea to everyone, hungry or not, does not present difficult, let alone insolvable, problems.

Insofar as the inquiry poses a question of consistency, libertarians must remain steadfast against the

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importunings of gradualism which would betray the ideal by imposing coercive tactics as a means of filling stomachs "temporarily."[7] The "temporary" in this situation tends to become ingrained and immutable, misleading the unknowing into the assumption that coercion (1) has always been there and (2) is necessary to accomplish the end. The result: An inefficient and uneconomic United States Postal Service which has never been able to compete with private enterprise save for its monopolistic protections, which constantly raises rates and reduces the quality of service, and which has incurred budget deficits almost every year for the past two centuries. It requires little imagination to appreciate the results if "feeding starving men" were left to the tender mercies of compulsive bureaucracy: The nation would perish within five years!

[7] Read. Leonard E., "Right Now!", *Notes From FEE* (Foundation for Economic Education, Inc., Irivington-on-Hudson, New York) May 1975 discusses the problems inherent in gradualism.

IDEAS ON LIBERTY

Lost Liberty

THOSE WHO CONTEND in this day that the government of the United States owes a living to any citizen, or group of citizens, are forfeiting their own liberty and that of their fellowmen to a grasping government which can and will make beggars of men otherwise able to care for themselves and naturally inclined to be charitable toward others. Much of the apparent need for governmental aid today is strictly a product of too much government, not the other way around. When government forcibly deprives productive men of a third or more of their earnings, as it does now in this country, it has seriously reduced their opportunity to care for either the aged or the youthful unproductive members of their own families. The cure for this situation lies in less government — not more; in greater individual opportunity — not less.

PAUL L. POIROT, *The Pension Idea*

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The Free Market and the "Tyranny of Wealth"

DAVID OSTERFELD

LIBERTARIANS believe that the substitution of a completely laissez faire economic system for the political system of government intervention would largely eliminate the problem of power in society. While government claims a monopoly on the use of force in society, the market is nothing more than the nexus of exchanges. Since no exchange can occur unless all parties can mutually agree to the conditions, voluntarism is the requisite of an exchange economy; the market, therefore, is characterized by the absence of power relationships.

The credibility of libertarianism, however, has been consistently damaged by its alleged naivete regarding the problem of monopolies. The absence of a governmentally imposed antitrust policy, runs the popular argument, would permit either voluntary cartelization or "cut throat" competition which, in turn, would result in the emergence of a few giant corporations able to use their monopolistic positions to tyrannize over society.

The libertarian response to this critical question is that, *provided they are voluntary,* mergers, price-fixing agreements, cartelizations, and the like, do not harm the consumer. On the contrary, like all voluntary actions on the market, they help to find the most value-productive point for the allocation of resources; so, they are positively beneficial from the point of view of maximizing the satisfaction of all members of society. Assume, for example, that firms A, B and C find that by merging they can increase their profits by restricting production. The "restriction" of production means, of course, that some of the factors of production will now become idle. But so long as there is

Mr. Osterfeld is an Instructor in Political Science at the University of Cincinnati.

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price flexibility, as there will always be on the free market, resources cannot long remain idle; and their employment in other areas will expand production in those areas. But if this is so then production has not, in fact, been restricted at all.

What has occurred was a shifting of factors from one area to another. But the merger would take place only if the merger participants believed that it would increase their profits. Since the market correlates profits and consumer satisfaction, the merger will—provided the expectations of the merger participants are correct—actually increase consumer satisfaction. That is, while physical output will have remained about the same, the *value* of that output, from the standpoint of the consumers, has been augmented.

It is further argued that the larger the firm in relation to the size of its market, the more limited it is in its ability to calculate and therefore the more susceptible it is to losses that would preclude further expansion. Since a monopoly or cartel eliminates the market in the area of its operations, it has no economic signals to guide it in allocating its resources or making investment decisions. Since this means that the decisions of the monopoly would be economically arbitrary, and therefore inefficient, it would suffer severe losses. There is, in other words, no economic difference between a monopoly and a socialist economy and both would collapse for the same reason: the absence of economic calculation.

Consequently, the libertarian believes that the size of the firm is limited by the limits of calculability and denies that the market confers any power on any firm, regardless of size, to exploit the consumer or victimize society. The popular fear of the "tyranny of wealth" under the free market is therefore seen as an illusion.[1]

Monopolies and the Progressive Period

The period between the Civil War and World War I was a period of massive business consolidation and is commonly cited as proof that the unregulated market results in powerful monopolies and concentrations of great wealth. This view has, perhaps, received its most uncompromising statement in the writings of Fritz Redlich, who contends that in the late 1860's, while "the belief in laissez-faire was declining in Europe . . . the American businessmen became adherents to that creed without any reservations whatsoever." Business has a "distinctly negative attitude toward government" and the latter half of the nineteenth century was a period of unrestrained laissez faire. In the resulting brutal competitive strug-

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gles only the fittest survived, and by the 1880's the economy was dominated by a "generation of Robber Barons" with monopolistic control over nearly all markets.

According to Redlich, "The check which competition had exerted before, disappeared . . . while government as a regulator, had not entered the scene as yet." Consequently, the "Robber Barons," "lacking a sense of social and national responsibility," were able to set high prices for their merchandise and low wages for their employees. "Only in reaction to the increasing power of business leaders, underprivileged strata in America, such as were farmers at the time and labor, forced first the states and later the national government to assume protective functions." The result was the emergence of such regulations of business as the Interstate Commerce Commission, the Sherman Antitrust Act, and the Food and Drug Administration, among a host of others.[2]

This interpretation has been called into serious question by recent historical investigations. Interestingly enough, the primary figure in this reinterpretation has been the prominent New Left historian, Gabriel Kolko. Far from laissez faire, contends Kolko, the inter-war period was characterized by massive government intervention and regulation of the economy. Kolko points out that the prevailing belief that American industry was monopolized and centralized to the extent that it was able to free itself from the dictates of the market was an "illusion." The reverse was true. As the economy expanded in the post-Civil War period, businessmen found themselves unable to control their own markets. Competition, far from dying out, was increasing. This view is supported by the following empirical evidence supplied primarily by Kolko:

- 1. **Steel.** Between 1901 and 1911 prices charged by U.S. Steel fell by an average of 11 per cent. Yet, its percentage of the nation's steel production declined precipitously from 61.6 per cent in 1901 to 39.9 per cent by 1920. Even at the height of U.S. Steel's "market domination" its competitors flourished. By 1911 there were over 80 firms in direct competition with U.S. Steel and producing over 60 per cent of all iron and steel products sold in the United States.[3]
- 2. **Oil.** Between 1880 and 1895 Standard Oil did maintain a high (85%) share of the market. But it could do this only because it reduced prices from 9.12 cents per gallon of refined oil in 1880 to 5.91 cents by 1897. Despite this, Standard's competitors increased from 37 independent refineries in the United States in 1899 to 147 by 1911, and Standard's share of the market declined

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noticeably during this period. This was prior to the Supreme Court decision on May 15, 1911 ordering the dissolution of the "monopoly."[4]

• 3. **Agricultural Implements.** Between 1903 and 1911 International Harvester's share of the binder market declined from 96 per cent to 87 per cent; its share of the mower market declined from 91 per cent to 75 per cent; its share of the harvester market from 85 per cent in 1902 to 80 per cent in 1911 and 64 per cent in 1918. While the number of manufacturers of agricultural implements declined slightly over this period, there were still 640 in the United States in 1909. Moreover, this decline was reversed in 1915 when the auto manufacturers began diversifying into tractors.[5]

• 4. **Communications.** A.T. & T. had a complete monopoly between its foundation in 1877 and 1894. This, however, was based on its control of crucial patents, which lapsed in 1894. By 1895 there were 27 companies in competition with A.T. & T.; by 1902 this number had risen to 9,100 and by 1907 to 22,000. A.T. & T.'s control of the market declined to 50 per cent by 1907 (3.1 million telephones controlled by A.T. & T.; 3.0 million controlled by the independents). The effect was to force A.T. & T.'s subsidiaries, such as Bell, to lower their rates. In 1895 Bell received $88 of revenue per station. By 1914 it had fallen to $41.[6]

• 5. **Copper.** Monopolistic control was never in question in the copper industry. The combined production of the nation's four largest producers of copper declined from 76 per cent of the market in 1890 to 39 per cent in 1920.[7]

• 6. **Meat Packing.** The three largest meat packers' share of the market declined from a combined total of 35 per cent in 1905 to only 22 per cent by 1909, while the number of competitors rose from 1,080 in 1899 to 1,641 in 1909.[8]

• 7. **Automobile.** The absence of monopolistic control in the automobile industry is indicated by the turnover of companies in the top ten. Between 1903 and 1924 there were 180 companies in the business of making and selling automobiles. Of the ten leading producers in 1903, only one was still in the top ten by 1924.[9]

Clearly, monopolistic control was not present during this period and competition was actually increasing, not declining. But competition was the last thing that owners of these giant corporations desired. Since their firms were already dominant in their respective industries, competition could only hurt them. Hence, they desired to "rationalize" the economy, i.e., to preserve the status quo and therefore their own socio-economic positions. To insu-

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late themselves from their competition, price-fixing agreements and divisions of the markets were negotiated, but quickly broke down in every case. "Voluntary agreements among corporations in the form of pools and agreements of every kind usually failed," says Kolko. "Consolidations and mergers were the next logical step, and also failed."[10]

The extent of the failure of the merger movement is vividly demonstrated in the study by the former Harvard economist A.S. Dewing. Dewing studied 35 industrial consolidations which were chosen at random from those mergers taking place no later than 1903 and in existence for ten years. Dewing arrived at two significant conclusions. First, the average aggregate earnings of the separate competing firms in the ten years prior to merger were a fifth greater than the average earnings of the consolidated firms in the ten years following the merger. Second, in only four of the 35 cases did the earnings during the first year after consolidation equal or exceed the expected returns of the promoters. And yet, as Dewing notes, "The earnings of the first year after consolidation were greater—by a little less than a tenth (7%)—than the earnings of the tenth year."[11]

As the attempts at voluntary control of competition failed disastrously, "it became apparent to many important businessmen," says Kolko, "that only the national government could rationalize the economy." Thus, he continues, "crucial big business support could be found for every major federal regulatory movement.... Progressivism was not the triumph of small business over the trusts... but the victory of big businesses in achieving the rationalization of the economy that only the federal government could provide."[12] The following are some of the areas receiving big business support:

• 1. **Interstate Commerce Act.** Prior to the inception of the Interstate Commerce Commission the railroads had attempted to maintain high rate levels by means of price-fixing agreements. These were constantly being undercut, however, and resulted in price wars between railroads. Consequently, in the 17 years prior to the ICC, railroad rates declined from an average of $19 per 1,000 ton-miles to $8.50. The main impact of the ICC was to eliminate undercutting by establishing minimum rates and compelling compliance. Price competition was eliminated. Due largely to deflationary conditions during the 1890's rates continued to decline slightly (from $8.50 per ton-mile to $7.80). The decline was effectively slowed, however, by the existence of the ICC, and after that period rates began a

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sharp increase. Thus Kolko comments that "the railroads were the leading advocates of increased government regulation after 1887."[13]

• 2. **The Department of Commerce Act.** Numerous businesses and financial organizations, including the House of Morgan, had long been pushing for the establishment of a Department of Commerce which would establish comprehensive federal legislation which not only would take precedence over the varied and often contradictory state legislation but could also be used to control competition. Thus, "Agitation for a Department of Commerce had been carried on by business organizations throughout the 1890's."[14]

• 3. **The Meat Inspection Act of 1906.** The European export market was vital to the major American meat packers. In the 1880's European nations began to ban American meat imports allegedly for health reasons, which was no doubt at least partially true; but the influence of the European meat packers who were losing business to American importers also played a part. "And since the six largest packers slaughtered and sold less than 50 per cent of the cattle, and could not regulate the health conditions of the industry, government inspection was their only means of breaking down European barriers to the growth of American exports." The major packers also felt that strict regulation would serve to "bring the small packers under control." Thus, "it was the large meat packers who were at the forefront of the reform movement."[15]

• 4. **The Pure Food and Drug Act of 1906.** Many of the larger food companies felt that their interests were being damaged by unscrupulous competitors selling cheap products and that federal regulation of food not only would end such practices but could be used to discriminate against their competitors as well. Thus, business support for federal regulation of food began as early as the 1880's, and received the endorsement of the National Association of Manufacturers, the Creamery Butter Makers' Association, the Retail Grocers' Association, and the American Baking Powder Association, to name just a few. "The food reform movement was essentially supported by the food industry itself. . . ."[16]

• 5. **The Federal Reserve Act of 1913.** "The bankers were the only significant group concerned with banking reform after 1897, and their problems and needs were the primary cause and motive behind the Act. For the Federal Reserve Act was the result of a movement led by bankers seeking rationalization, and hoping to offset the

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decentralization of banking toward small banks and state banks. The expansion and domination of banking by big city bankers was possible only with the aid of the federal government, and although the Act solved many of the problems of the small bankers, it held out the promise of reversing those larger tendencies within the banking system running against the big bankers." The final version of the bill, it should be noted, bore a clear resemblance to the earlier Aldrich Bill which had been drafted by such big city bankers as Paul Warburg.[17]

• 6. **The Federal Trade Commission Act of 1914.** This act was supported by every major business group in the nation with the exception of NAM, which remained neutral. Business felt that a Federal Trade Commission could do the same thing for general business as the Federal Reserve did for the big bankers and the ICC did for the transportation industry, i.e., stabilize business by eliminating or reducing competition. The FTC was invested with the power to outlaw "unfair methods of competition," but it was left up to the Board to determine what such practices were. This meant that the Board could, and was, used against small businesses that might be tempted to cut prices. In an interesting speech, Edward Hurley, who assumed the head of the FTC in 1916, remarked that "In my position on the Federal Trade Commission I am there as a businessman . . . and I think that the businessmen of the country will bear me out when I say that I try to work wholly in the interest of business."[18]

In short, the corporate elite found themselves unable to control their markets in the expanding economy of the inter-war years. Since such efforts as voluntary price-fixing and consolidations failed to insulate them from the rigors of the market, their only recourse lay in the imposition of compulsory regulation through the aegis of the government.

Conclusion

The Kolko thesis is significant for, as a member of the New Left, Kolko certainly cannot be accused of being an apologist for the free market. Yet, his analysis persuasively indicates that the Progressive period, which is so often cited as "proof" that the unregulated market would result in a "tyranny of wealth," demonstrates just the opposite. Far from the market leading to monopolies, the Kolko analysis clearly demonstrates that it was precisely the market that effectively and continuously thwarted the monopolistic schemes of the corporate elite. It was in response to the failure of their attempts at voluntary control of the market

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that the corporate elite turned to the state for the control of competition through compulsory regulation.

Thus, the Progressive period was certainly characterized by monopolistic control of many markets, but it is of crucial importance to realize that the source of these monopolies lay not in the market but in the government restrictions on the market. As Kolko pungently remarks elsewhere, "political power in our society after the Civil War responded to power and influence in the hands of businessmen, who have often had more leverage over political . . . than over business affairs—and they were quick to use it to solve business problems."[19]

This, of course, is precisely in conformity with the libertarian theory of monopoly. The specter of the market leading to the "tyranny of wealth" is clearly an illusion. The only effective antimonopoly policy lay not in government controls but in the unregulated market.

—FOOTNOTES—

[1] On the libertarian theory of monopoly see, in particular, Murray Rothbard, *Man, Economy and State* (Los Angeles: Nash, 1970); Murray Rothbard, *Power and Market* (Menlo Park, Ca.: Institute For Humane Studies, 1970); and D.T. Armentano, *The Myths of Antitrust* (New Rochelle: Arlington House, 1972).

[2] Fritz Redlich, "The Robber Barons: Creative or Destructive," *The Robber Barons, Saints or Sinners?*, ed. Thomas Brewer (New York: Holt, Rinehart and Winston, 1970), pp. 88-100. Also see Richard Hofstadter, *Social Darwinism in American Thought* (New York: Beacon Press, 1944); Richard Hofstadter, *The Age of Reform* and Harvey Buncke, *A Primer on American Economic History* (New York: Random House, 1969), pp. 117-18. This view is advanced in most history and political science texts. See, for example, William Ebenstein, *et al., American Democracy in World Perspective* (New York: Harper and Row, 1973), pp. 388-89; James Burns and Jack Pelatson, *Government by the People* (Englewood Cliffs: Prentice-Hall, 1966), pp. 620-22; and John Garraty, *The American Nation* (New York: Harper and Row, 1966), pp. 58-59 and 648.

[3] Gabriel Kolko, *The Triumph of Conservatism* (Chicago: Quadrangle Books, 1967), p. 37. Also see Armentano, pp. 102-05.

[4] *Ibid.*, pp. 40-41; and Armentano, pp. 77-79.

[5] Kolko, pp. 46-47.

[6] *Ibid.*, pp. 47-49.

[7] *Ibid.*, pp. 50-51.

[8] *Ibid.*, pp. 52-53.

[9] *Ibid.*, p. 43.

[10] *Ibid.*, p. 56. For a detailed analysis of why these failed see Armentano, Chapter 7, "Price Fixing in Theory and Practice," pp. 132-63.

[11] A.S. Dewing, "A Statistical Test of the Success of Consolidations," *Quarterly Journal of Economics* (1921), pp. 84-101.

[12] Kolko, pp. 283-84.

[13] *Ibid.*, p. 59. Much of this information is also drawn from Yale Brozen, "Is Government the Source of Monopoly?," *The Intercollegiate Review* (Winter, 1968-69), pp. 71-72.

[14] Kolko, p. 69.

[15] *Ibid.*, pp. 98-108.

[16] *Ibid.*, pp. 108-110.

[17] *Ibid.*, pp. 194-95 and 243.

[18] *Ibid.*, pp. 267-75.

[19] Gabriel Kolko, "Power and Capitalism in 20th Century America," *Liberation* (December, 1970), pp. 21-26.

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Essays on Hayek

SUDDENLY, conservative—or traditional liberal—economics is becoming a fashion. In 1974 the invariably fashionable Nobel Prize committee bestowed one of its awards on Friedrich Hayek for work done a couple of generations ago. Now the same committee has honored a second conservative or true liberal, Milton Friedman, for work on monetary policy theory that was first elaborated in 1958. It's better late than never, even though one must be permitted the ironical reflection that if the Nobel people—and those who follow them—had waked up to the importance of Hayek and Friedman on time we might have been spared much of the damage wrought by the Keynesians in recent decades all through the western world.

Another irony is that the greater importance of Hayek and of Friedman derives from their transcendence of economics as such. When the Mont Pelerin Society decided to honor Hayek at a special regional meeting at Hillsdale College in Hillsdale, Michigan, in the Summer of 1975, technical economics occupied just about one-seventh of the time alloted to a discussion of the Hayek contribution. Fritz Machlup, who has put together the Hillsdale proceedings in a book, *Essays on Hayek* (New York University Press, cloth, $10.00; Hillsdale College Press, paperback, $2.00) covered Hayek's work on such things as the theory of economic fluctuations and the theory of economic planning in masterly fashion. But, as Milton Friedman points out in his foreword to the book, Hayek's economics has been secondary in importance to his "influence in strengthening the moral and intellectual support for a free society."

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The primary importance of Hayek's moral and intellectual influence comes through in this volume in many ways. George Roche, the President of Hillsdale College, says, patly, that "economic science is not enough." So he hails Hayek for realizing that the failures of collectivism, which strike at men's stomachs, "strike even more directly at men's souls." Arthur Shenfield speaks of the importance of Hayek's *The Pure Theory of Capital*, but what sets him tingling is Hayek's work on "scientism," defined as "the uncritical application of the methods, or the supposed methods, of the natural sciences to problems for which they are not apt."

Ronald Max Hartwell's essay recognizes that Hayek "is an economic and political theorist rather than an historian," but, as he says, "most of Hayek's writing since the publication of *The Road to Serfdom* in 1944 has been at least partly concerned with history." So the Hartwell accolade is bestowed on Hayek for his exposure of the impostures of Marx, Engels, the Hammonds, Tawney, the Webbs and Harold Laski for misrepresenting the history of early industrialism as a catalogue of horrors.

There were, indeed, horrors in Manchesterian England, but most of them were hangovers from the twenty-year period in which the British had to defer the building of houses to give the making of ships and guns a first priority in order to defeat Napoleon.

A Failure of Leadership

Bill Buckley, in his essay, takes off from Hayek's "nontechnical writings" to chastise American capitalists for their failure to react to the warnings in Hayek's *The Road to Serfdom*. As Irving Kristol has said, the intellectual fight against socialism has been won, but "the stunning paradox" is that the socialists don't seem to know it. They go on winning the battle in parliaments that vote consistently for inflationary budgets that are making capitalism more and more inoperable. "The entrepreneurial class," says Buckley, "can only change its image by taking lusty joy from its achievements." But where is this joy? It was not apparent in a scene that Bill Buckley finds "symbolic of the triumphs of demagogic terror over productive enterprise: Senator Scoop Jackson, sitting high in his committee chair, addressing the twelve top officials of the oil and gas industry meekly astride their stools at the bar of justice, publicly chastising them on their obscene profits." How bracing it would have been, says Buckley, if "as one man they had risen to their feet early in the tirade and walked out, leaving

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the Senator lecturing only the television cameras, which of course he was primarily addressing."

In their respective essays Gottfried Dietze and Shirley Robin Letwin come to the nub of Hayek's greatest importance, which is his recognition that economics, as Ludwig von Mises has put it, is part of a larger science of choice. Choice, of course, implies at least an "as if" acceptance of free will, and it can only function well in a society whose basic conventions and law keep men from invading each others' rights. Knowing that freedom, to be real in a practicable sense, requires a universally respected framework of moral certainties, Hayek, ever since *The Road to Serfdom,* has been devoting most of his time to determining what he calls "the constitution of liberty."

Law and Liberty

A tolerable society demands a subtle blend of order and spontaneity. Naturally the order which Hayek extols must be that of the "Rechtsstaat" which limits its legislation to the affirmation of ancient verities. The "good law" may, in the course of time, "develop in very undesirable directions" that require correction by "deliberate legislation." But when parliaments depart from the "corrective" function to indulge in arbitrary restrictions that limit the inventiveness of human beings, we all suffer.

Hayek prefers to be called an Old Whig. There must be "equality before the law," but that is where the case for egalitarianism stops. To think of equality as a matter of leveling entails robbing one man of the fruits of his work to support another. When societies embrace this type of Robin Hood egalitarianism the law becomes a most uncertain entity. What follows is the destruction of liberty. The monstrous injustice of the Robin Hood approach is that it deprives the poor of all the advantages they would otherwise get from both the spontaneous and the trained inventions and discoveries of more able men.

In what is perhaps the most challenging essay in the book Shirley Letwin makes a subtle distinction between the "spontaneous order" and what she calls the "fantasy of 'laissez faire.'" The spontaneous order of the market place is "not a mechanical process given by nature." It consists, as Hayek keeps reminding us in one fashion or another, "of men buying and selling, investing and managing under special historical conditions ... these have to be set by us, in accordance with our purposes and our conceptions of how we can best achieve them. One of Hayek's greatest contributions to the de-

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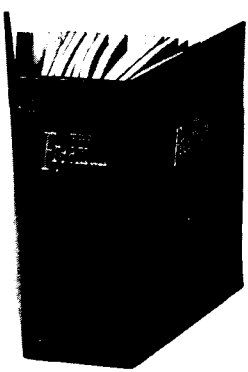
fense of liberty is his repeated assertion that belief in the free market and competition, far from absolving us of having to think of legal arrangements, obliges us to do so more carefully." The art of making good social arrangements consists in "attending with meticulous deliberation to some things while letting others arrange themselves."

To take some of the mystery out of it, it might be said that laissez faire is fine when it is practiced within the scope of the Ten Commandments. That is what "Old Whiggism" was about. It is all that Adam Smith, who was no anarchist, intended. Hayek pays his tribute to the "Old Whig" mind when he notes, as Shirley Letwin says, that England "was famed for its individualism and liberty," and yet was disposed to conform in all externals to common usage rather than to go chasing after the development of "original personalities." The acceptance of "customary morals" was repudiated in the Bloomsbury of John Maynard Keynes, who as a young man "claimed to be our own judge in our own case."

To keep clear of the Bloomsbury mistake requires a "precarious balance." Hayek, says Shirley Letwin, has "provided the model."



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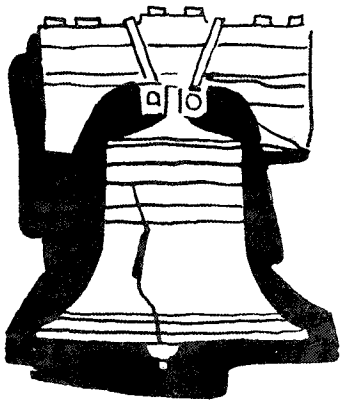

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